

**MINNESOTA STATE COLLEGES AND UNIVERSITIES**  
**BOARD OF TRUSTEES**  
**AUDIT COMMITTEE MEETING MINUTES**  
**May 15, 2012**

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**Audit Committee Members Present:** Trustees James Van Houten, Chair; Philip Krinkie, Dan McElroy, David Paskach, and Michael Vekich.

**Audit Committee Members Absent:** none.

**Others Present:** Chancellor Steven Rosenstone, Trustee Scott Thiss, Chair; Trustee Brett Anderson, Trustee Duane Benson, Trustee Cheryl Dickson, Trustee Louise Sundin, and President Edna Szymanski.

The Minnesota State Colleges and Universities Audit Committee held its meeting on May 15, 2012, 4<sup>th</sup> Floor McCormick Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair Van Houten called the meeting to order at 1:27 p.m. and reviewed the agenda.

**1. Approval of the Audit Committee Meeting Minutes**

Chair Van Houten reviewed the highlights of the April meeting minutes, and asked Ms. Beth Buse, Executive Director of Internal Auditing, to give updates on the search for the Internal Control and Compliance Auditor and the status of the State University Payroll and Personnel Internal Control audit. Ms. Buse stated that she was working with Human Resources to get the new position classified and she hoped to fill the position as soon as possible. She stated that the fieldwork for the State University Payroll and Personnel Internal Control audit had been completed and she hoped to bring that report to the committee in June. Trustee Van Houten also reminded members that the Minnesota Department of Higher Education had been conducting audits of the colleges and universities. Ms. Buse had brought a summary of those audits to the committee in April and the audit committee requested that they receive a summary of those audits every year. Trustee Van Houten thought it would be helpful to have a list of the kinds of reports that the audit committee could expect to see annually, along with an estimated timeline. Ms. Buse agreed and stated that she would incorporate an annual summary into the fiscal year 2013 audit plan. *Trustee Van Houten called for a motion to approve the April 18, 2012 Audit Committee meeting minutes. There was no dissent and the motion carried.*

**2. Review Results of Audit Risk Assessment, Including Information Technology Audit (Information Item)**

Ms. Buse stated that internal audit standards and board policy required that an audit plan be developed and brought to the audit committee annually for approval. She stated that she planned to bring that proposed audit plan to the committee in June. She added that in order to prepare that audit plan, she needed to have a discussion on risk assessment with the committee.

Ms. Buse stated that she had taken the same three-pronged approach to building the audit risk

assessment that had been used last year, including enterprise risks, financial risks and information technology risks. She added that the Leadership Council had done a brain storming session to discuss enterprise risks and she shared the four themes that were highlighted most from that session.

Ms. Buse discussed financial risks, which looked at individual institution risks and at functional areas. Trustee Van Houten asked Ms. Buse to address how the management model would identify a maximum possible loss in terms of priorities. Ms. Buse stated that the model looked at the financial condition metric. A point scaling approach was used so that an institution would have more points based on the materiality of their transactions and other factors. She noted that there had been an overall decrease in financial risk, but that based on the current model, eventually there would be an increase because of the audit metrics and the fact that a significant number of points were assigned for individual college and university internal control and compliance audits.

Ms. Buse stated that five institutions had a high financial risk, primarily because it had been over ten years since they had an internal control and compliance audit, the level of material financial activity, and the number of incompatible security accesses. Ms. Buse described different types of functional areas that could be reviewed when assessing functional area risks. She stated that they had been working with Vice Chancellor King and her staff in assessing the risk over these areas; considerations were materiality, transaction volume and complexity, susceptibility to fraud, the number of compliance requirements, and past audit history.

Ms. Buse highlighted a few areas with high risk, including banking and cash controls, purchasing cards and document imaging. These will be potential topics for the fiscal year 2013 audit plan.

Vice Chancellor King stated that they were moving aggressively to increase the campuses use of the tools that were available to them through the purchasing card program. She suggested that it might be better to review that program next year to identify any control gaps that might exist once the program was fully adopted. She also asked about the possibility of doing more work in the area of bookstores.

Ms. Buse stated that, as part of the audit plan, she would be discussing internal auditing's role in providing assurance services versus providing advisory services. She stated that she hoped to reserve time within the audit plan for advisory services. She gave the example in the area of purchasing card work, internal audit could offer advisory services as the program was being developed, or provide assurance that the controls that management had put in place were working as intended.

Trustee McElroy agreed that in an organization as diverse as MNSCU, there would be opportunity to use advisory services even just to share best practices. He wondered if the function belonged as part of internal audit which reported directly to the board or if it belonged somewhere else. Trustee Van Houten stated that there was a line between design and consulting, and he cautioned that if the auditors were involved in the design of something, it would be difficult for them to objectively assess the process later. Ms. Buse agreed that management's role was to make decisions on how things were finally developed and implemented, but she

added that advisory services were provided for within internal auditing standards. She added that internal audit departments were looking more advisory services because it could provide more value to the organization to be in the forefront versus waiting until after things were implemented.

Ms. Buse introduced Mr. Eric Wion, Deputy Director for the Office of Internal Auditing and Mr. Darrel Huish, Vice Chancellor for Information Technology. Mr. Wion began by introducing Mr. Roman Potapov who is the new Information Technology Audit Manager.

Mr. Wion presented information on information technology audit risk assessment work. He stated that he and Mr. Potapov had been working to identify risks and to develop a list of potential projects to spend internal audit resources on over the course of fiscal year 2013. He stated that they had met with many information technology professionals as well as groups of professionals to talk about things that were important to those groups and to identify risks in their areas. They had attended the annual system Information Technology Security conference. He stated that they were becoming more engaged with the Chief Information Officer and security communities by attending the bi-weekly Chief Information Officer meetings and monthly security steering committee meetings.

Mr. Wion stated that their overall observations were first, that the system was a large and complex organization and that the technology the organization utilized was equivalently complex and diverse. It has been a very complicated environment to learn and understand. He noted that staff in the system office and at the individual institutions were professional, talented, hardworking, and extremely passionate about technology, about higher education and about serving students, faculty, and staff. Mr. Wion also noted that very few of the information technology professionals had experience working with auditors, so the concept of information technology audit was new to many of them across the system.

Mr. Wion noted that another overall observation was that the system office managed several mission critical enterprise systems that were utilized by all of the colleges and universities. He also noted that individual institutions manage their own unique mission critical systems and networks. He stated that it would take some time for information technology audit to understand what all those unique operating systems were throughout the system. Mr. Wion stated that institutions had various levels of technical expertise but that very few institutions had dedicated information security professionals.

Mr. Wion stated that they had also learned that there were a few institutions that were managing systems that could evolve into enterprise systems. He gave the example of ImageNow, which had functionality that could assist with automating some manual processes. Finally Mr. Wion noted that there was not much guidance or requirements in the form of policies and procedures, systemwide, for information technology and security

Mr. Wion stated that one way to classify or prioritize systems and data was based on confidentiality, integrity, availability, and accessibility. Trustee Van Houten asked what the significance was for prioritizing the systems and data and how it would be used. Mr. Wion explained that internal audit was using this classification informally, but that ideally a similar

classification would be used to determine what controls were necessary in computers systems. He added that many organizations would have some sort of data classification and prioritization scheme on which they base decisions. He stated that currently the system did not have a policy or a guideline that addressed classifications to help determine what the appropriate levels of controls should be.

Mr. Wion stated that the enterprise systems, ISRS, the warehouse, Desire2Learn, and also ImageNow were critical systems because they were utilized by most if not all of the institutions. He stated that confidentiality was high because there were large volumes of sensitive student data, employee data and banking data. He stated that data integrity was medium to high, and that the financial data had to have integrity because the financial statements were based upon that data. The system made important decisions such as awarding degrees, based on the data, so data integrity was very important. He also noted that availability was important; if Desire2Learn was unavailable it would be difficult for faculty to teach and for students to learn. And finally he noted that accessibility was high as well.

Mr. Wion stated that it was difficult for internal audit to make determinations about institution specific systems at this time. He stated that they would begin working on having a better understanding of those systems in the coming year. He did state, however, that they knew several things. Each institution was responsible for managing and securing their own networks, computers, and software. The institutions run a wide variety of software, including commercial and customized built software. Many of the institutions copy ISRS data and store it in their own databases on campus. Institution employees and students access the enterprise systems to conduct business, and each institution has point of sales systems that process credit card transactions.

Finally he informed the committee that they should expect to see a focus on these enterprise systems in the proposed audit plan for fiscal year 2013.

Trustee Paskach asked if there were de facto practices in place that were keeping the system secure in lieu of formal policies, procedures and guidelines on information technology security. Trustee Van Houten reminded everyone that if a deeper conversation about vulnerability and risk situations needed to take place, they had the ability to call for a confidential meeting to benefit the committee with a more detailed discussion. He asked that, at this point the conversation be discussed at a high level. Vice Chancellor Huish stated that although there were few formal policies and guidance to the individual institutions, it should not be inferred that there was no activity or support from system office personnel, or inter-operation sharing of best practices among the institutions. He assured the committee that those things were occurring throughout the system. Mr. Wion concurred.

Trustee Krinkie asked if individual institutions made decisions about the types of external application software that was installed locally. Vice Chancellor Huish stated that those decisions were made locally. Trustee Van Houten asked if there were audit implications to that level of independence. Ms. Buse stated that it added to the complexity of the organization when determining audit priorities, but that there were no policies that prohibited institutions from operating their own networks and running applications that they needed for the missions

of their organizations.

### 3. Board Committee Goal Update (Information Item)

Ms. Buse gave an update on this year's committee goal to research best practices in audit committees. She informed the committee that she had done research on the topic, but that given how experienced the members of the audit committee were, she welcomed the discussion today on what things members thought worked well and what things they would have liked to have seen some improvement on.

Ms. Buse stated that in doing the research, she found that audit committees had many different practices, but that it was important to consider the context that each committee worked within. She noted that when comparing the system to other higher education systems, it was important to remember, for example, that this system did not have a medical school. She noted that another thing to consider was the division labor between board committees, the number of committees, and what had been assigned by board policy to this audit committee compared to other organizations. And then finally, it would be important to take into account the resource constraints that the system has been working within.

Ms. Buse reviewed her research methodology. She noted that the Association of Governing Boards for Colleges and Universities had published a booklet that might be helpful as part of the orientation material for the new audit committee. Trustee Van Houten reminded members that there was a policy requirement for the Director of Internal Audit to develop some kind of developmental or training program for the audit committee each year. Ms. Buse stated that the training in the past few years had focused mainly on financial statement review, but that may need to be broadened in the future as new members join the committee with different experiences. Trustee Van Houten added that given the loss of the contract with the Legislative Auditor, the role of the audit function was fluctuating and the training for committee members may have to change accordingly as well. He also suggested that it would be appropriate to let the next committee decide the appropriate level of training for them.

Ms. Buse stated that she reviewed quite a bit of information from audit consulting firms as well as other higher education systems. She stated that most of the information was available on websites. She reviewed audit committee charters, agendas, board committee packets and had limited conversations with individuals. She noted that there was some consistency across higher education and industry on the types of activity or the topics that audit committees should cover. She highlighted that information in a handout she provided to committee members.

Vice Chancellor King noted that the outside research did not mention the kinds of programs audits that the audit committee had focused on over the years. She also noted that advisory services were not on the list. She asked if other higher education systems were doing those kinds of audits and services. Ms. Buse explained that her research was related more specifically to the work of audit committees, not to the work done by internal audit departments. She did note, however, that a best practice within industry was to dedicate twenty percent of their time to advisory services. She added that the Institute of Internal Auditors stated that internal auditors should be more engaged in the strategic initiative of the organization and that the audit plan

should align to those strategic initiatives.

Trustee Van Houten asked if the audit plan could include information about how much time could be set aside, given the resources once the office is fully staffed, to work on special projects in the next fiscal year. He further stated that benchmarking and ongoing research of best practices ought to be something that is incorporated into future audit plans.

Trustee Paskach stated that the system has become very comfortable and confident in its financial auditing and he added that the system had begun tackling the information technology security audits. But he stated that it was important for the audit committee to continue to stay focused on enterprise risk management as well.

Chancellor Rosenstone stated that not everything tied to accountability necessarily belonged in the audit committee, though the audit committee may want to play an oversight role on the accountabilities. He added, for example, that there could be accountabilities, benchmarks, or metrics that were established for academic affairs and then academic affairs should be responsible for managing, implementing and reporting back to the Board of Trustees. There could be a macro role for the audit committee to play without every project being brought into the committee for oversight. Trustee Paskach agreed. He stated that historically, the audit committee has driven some of those questions, but ultimately the responsibility belonged to other committees.

Chancellor Rosenstone added that there was a broad discussion to be had at the board level about risk management, and the board could assign responsibility and accountability for various aspects. He noted that as the committee sets its priorities for defining risk it should constantly consider the probability of there being a problem and also the consequences of that problem. He added that the consequences were not always monetary, and could be ones of reputation or other factors. He stated that the system would constantly have to do some triaging of risks, given the scarcity of resources.

Trustee Van Houten agreed, though he reminded the committee that when the internal audit budget and audit plan were approved, it was understood that there could be issues that would arise or projects that could not be anticipated, where internal audit might need to do additional work. He stated that the board was only willing to approve an audit plan under such uncertainty if there was an understanding that if it turned out that it was not going to be adequate, the system would not be held with an inadequate audit system. He noted that at this point that did not appear to be necessary. Trustee Van Houten asked that if there were particular issues that were not being addressed, or issues that others had brought up, those issues ought to be identified in the plan as well.

Ms. Buse agreed that the proposed audit plan would be designed base on where internal audit could most efficiently spend its resources in providing the board assurance and giving the best value to the system. Ms. Buse finished the audit committee practices discussion.

The meeting adjourned at 2:53 p.m.